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**Political Explanations of Economic Decline:
Evidence from New Zealand**

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POLITICAL EXPLANATIONS OF ECONOMIC DECLINE: EVIDENCE FROM NEW ZEALAND

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IRIS Summary **Working Paper #141**

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Jack H. Nagel, November 1994

New Zealand's protracted relative (and sometimes absolute) economic decline offers an opportunity to apply and test political explanations of economic stagnation offered by two eminent theorists, Mancur Olson and the late William Riker. Olson's theory proposes that long periods of uninterrupted democratic government lead to economic decline because of the increasing number and power of special interest groups ("distributional coalitions"). Riker argues that "populist" (also called Westminster, majoritarian, or pluralitarian) democracies perform less well economically, because they are vulnerable to cyclic majorities, which create policy instability that discourages investment. As the world's oldest inclusive democracy and the prototypical populist democracy, New Zealand seems prima facie to fit both theories.

In an exploratory fashion, this paper uses data on annual changes in GDP per capita in conjunction with information about contextual developments in politics and policy to assess the congruence between N.Z. experience and predictions derived from each theory. (A brief appendix also reports evidence from interviews about the applicability and influence of Olson's theory in N.Z.) The analysis leads to three conclusions: (1) Both theories need to be stated cautiously. Olson's analysis cannot be construed as implying a nearly continuous decrement in growth; instead, the data suggest a ratchet effect in which the problems of an arteriosclerotic economy show up in maladjustment to external shocks. Similarly, the Riker hypothesis holds only when populist systems experience multidimensional electoral competition. It does not apply during unidimensional eras, which may last for decades. (2) Both theories are consistent with, and may help explain, the substantial worsening of N.Z. economic performance during the 1970s. (3) Each theory can explain aspects of N.Z. economic history that are beyond the scope of the other. Olson, unlike Riker, accounts for relatively low growth during the 1950s and 1960s, when politics and policies were stable. Riker's emphasis on the harmful effects of policy instability per se may help explain why the N.Z. economy performed so poorly for eight years after market liberalization began in 1984.

The paper is relevant to people in the development community who are interested in the relationship between democracy and economic growth. In addition, the analysis qualifies the enthusiasm of some students of development (including Olson and Stephan Haggard) for two-party systems. Both Riker's theory and N.Z. experience suggest that such systems perform well only during periods of unidimensional politics.

POLITICAL EXPLANATIONS OF ECONOMIC DECLINE: EVIDENCE FROM NEW ZEALAND

Jack H. Nagel

During the second half of the twentieth century, New Zealand experienced a protracted relative economic decline. In the late 1930s, one study ranked it first in the world in per capita income, and through 1955, it ranked among the top eight countries in GDP per capita; but by 1990 23 countries had surpassed it (Bollard 1992, 6). From 1955 on New Zealand consistently fell below the average of other OECD countries in growth rate of GDP per capita.[1] From 1974 to 1992, relative stagnation became nearly absolute as well. During that eighteen-year span the mean annual growth rate was only 0.3%, and in eight of those years per capita GDP actually fell.[2]

From the perspective of comparative political economy, this unfortunate history offers an opportunity to assess explanations of economic stagnation proposed by two eminent scholars, Mancur Olson (1982) and the late William Riker (1992, 1993).

Olson's well-known argument holds that when a democracy experiences a long period of stable institutions and uninterrupted political freedom, an increasing number of interest groups will be able to overcome the problem of collective action by establishing organizations to advance their economic interests. Unless their membership encompasses a large proportion of citizens, these distributional coalitions will exploit their economic and political power to win advantages for their own members at the expense of the rest of society. The accumulation of narrow special-interest privileges over time produces growing inefficiency that reduces the rate of economic growth.

In its pure form, Olson's theory attributes economic stagnation only to the longevity of free institutions, not to their particular constitutional character. In contrast, Riker's analysis holds that one type of democracy is especially conducive

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[1]Growth rates for New Zealand (and the OECD average) are as follows: 1955-60: 1.8% (2.1%), 1960-65: 2.8% (3.9%), 1965-70: 1.6% (3.6%), 1970-73: 2.6% (4.2%), 1974-84: 0.2% (1.8%). OECD, *Economic Surveys: New Zealand*, 1975, 1988/89. (Data presented later from New Zealand sources differ slightly.)

[2]Based on data presented below in Table 1.

to economic decline. This is the "populist" model in which governments can implement the will of the putative majority unfettered by separation of powers, bicameralism, multi-party coalitions, supermajoritarian decision rules, judicial review, or federalism. Drawing on developments in the formal theory of social choice, Riker argues that such systems present no institutional barriers to the operation of voting cycles. Consequently they should display a "pattern of passage and repeal" of major legislation when one majority replaces another. (Riker 1992, 114-15) Instability of fundamental policies causes economic uncertainty, which discourages investment and thus produces a lower rate of economic growth.

Both Olson (1982, 132-36) and Riker (1992b) have suggested that their respective theories should fit New Zealand and help explain its economic decline. Both are supported by strong prima facie cases.

Consistent with Olson, New Zealand has a long, uninterrupted history of free democratic government. Having enfranchised women in 1893, before any other country, New Zealand can fairly claim to be the world's oldest fully inclusive democracy. For the next century, the country's fundamental institutions of government remained essentially unchanged.[3] Moreover, New Zealand's territory has never been attacked or invaded, and the country has had no internal warfare since the nineteenth century, when British settlers fought the Maori for control of land.

Consistent with Riker, New Zealand presents the world's purest example of populist institutions--also called, by various authors, pluralitarian, majoritarian, or Westminster democracy. (Nagel 1994b, Lijphart 1984). Since 1935, New Zealand has been ruled by one or the other of two tightly disciplined dominant parties.[4] Frequent (normally triennial) elections make politicians constantly attentive to electoral calculations. Legislative and executive power are fused through the operation of cabinet government. The abolition of the Legislative Council (upper house) in 1950 merely confirmed formally the unicameral legislature that had obtained de facto since 1893. The existence of a only a vestigial written constitution means that Parliament has unlimited formal authority and courts cannot review legislation. Provinces were abolished in 1876, and local

[3]A successful referendum in 1993 will result in a radically changed electoral system for future elections. This reform is widely recognized as New Zealand's most significant constitutional change in the past century.

[4]It is widely expected that the 1993 electoral reform, once implemented, will produce a multi-party system and coalition governments (Nagel 1994a).

authorities are subordinate to the central government. In short, New Zealand's political system offers an open field for temporary majorities (or, more accurately, pluralities). When majority preference cycles exist, there are no institutional barriers to frequent policy reversals.

Because Olson's theory is premised on stability and Riker's on instability, they may seem to offer conflicting explanations. In fact, there is no logical incompatibility between them, because the stability Olson requires is at the institutional level, whereas the instability Riker invokes is at the level of politics and policies. Thus both can be true simultaneously.[5] Nevertheless, in the New Zealand context, as I show below, they generate somewhat different testable implications.

Needless to say, neither author purports to offer a complete theory of economic performance. Thus it will be helpful to keep in mind other factors that may serve as alternatives or complements to political-structural explanations in accounting for New Zealand's poor economic growth. Relevant conventional explanations can be grouped into two classes: exogenous economic influences and policy errors.[6]

Exogenous economic causes include two secular trends and two sets of specific shocks. Because its exports consist overwhelmingly of primary products, New Zealand has been subject to a long-term decline in its terms of trade. This trend has been exacerbated by synthetic competition for one main export (wool) and declining demand (due to health concerns) for two others (dairy products and red meat). New Zealand's ability to export agricultural produce was further hindered by the end of its previously privileged access to the British market after the

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[5]Dennis Mueller (1983) has extended Olson's analysis to incorporate the same mechanism as Riker later employed--rule by unstable coalitions of minorities. Mueller, however, relates the frequency of cyclical majorities only to the density of special interest groups. Thus his hypothesis, like Olson's, does not mention the particular democratic institutions that are central to Riker's argument.

[6]Another class of explanations, less relevant to this paper, consists of endogenous economic causes. Weaknesses frequently alleged include poor management, inefficiency of the (previously) large state sector, a high rate of secondary school leavers (dropouts), low enrollment in tertiary education, and a cultural preference for recreation and leisure over wealth and income. (As one well-placed observer told me, New Zealand should at least be able to compete economically with Australia, "because they're even lazier than we are.")

U.K. joined the European Economic Community in 1973. Finally, as a country that had imported nearly all the petroleum it consumed, New Zealand was hard hit by the OPEC oil price increases in 1973 and 1979.[7]

Within the generally protectionist regime that existed until 1984, reformers cite reliance on import licensing (inaugurated by the first Labour government in the 1930s) as an especially harmful policy error.[8] In addition, they point to the heavy costs imposed by a series of policies enacted under the National Party government led by the autocratic Robert Muldoon, who was Prime Minister from 1975 to 1984. In 1975, he instituted a lavish, non-contributory National Superannuation program that lowered workforce participation by offering retirement at age 60 with a pension that (for a married couple) equalled 80% of the average wage. From 1978 to 1981, Muldoon pushed through a series of massively-subsidized heavy industrial projects known as "Think Big." Designed as an import-substitution response to the energy crisis, these plants became huge liabilities after oil prices dropped in the early 1980s. Finally, in an effort to curb double-digit inflation, Muldoon in June 1982 instituted a wage and price freeze that lasted into 1984.

With these exogenous events and questionable policies as a backdrop, this paper seeks to assess--in an exploratory rather than definitive fashion--the fit between New Zealand's economic course and the Olson and Riker theories. I shall rely mainly on data tracing the course of economic growth over time, in conjunction with relevant knowledge and ideas derived from a larger, on-going study of democratic politics in New Zealand. In addition, a brief Appendix presents evidence from interviews about the influence and applicability of Olson's work in New Zealand.

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[7]Since 1973, New Zealand has developed offshore oil fields and substituted condensate from domestic natural gas for some petroleum imports. By 1991, 37% of its crude oil and condensate came from domestic production (*New Zealand Official Yearbook [NZOY] 1993*, 373; *NZOY 1986*, 546)

[8]Bernard Galvin, interview, Wellington, November 4, 1993. During the Korean War boom, a National Party government shifted to reliance on exchange controls, but Labour reinstituted import licensing in 1958, and subsequent National governments maintained the policy. These requirements were finally phased out from 1983 to 1989 as part of New Zealand's sweeping program of market liberalization (Bollard 1992, 16).

Data

As the principal indicator of economic performance, I will rely on the annual rate of change in real Gross Domestic Product (GDP) per capita. Although annual changes in simple GDP are more readily available, GDP per capita is a better gauge of individual economic welfare.[9]

The New Zealand Department of Statistics provides annual estimates of GDP at constant prices (real GDP) only as far back as 1954-55.[10] (The estimates are for years ending March 31. Because accuracy about timing will sometimes be important in relating economic outcomes to events, I shall use hyphenated pairs of years in the text. To avoid crowding, tables and figures will show only the second year.) Although one might wish for an even longer series, 1954 is not a bad place to start, because the Korean War stimulated atypically robust demand for New Zealand's primary products during the early 1950s. Similarly, the 1930s and 1940s were perturbed by the Depression and World War II.

I computed the percentage change in GDP per capita between Year 1 and Year 2 using the following formula:

$$\Delta GDP/CAP = 100[(GDP2/GDP1)/(POP2/POP1) - 1]$$

During the period covered by the GDP data, New Zealand conducted a quinquennial census in April or March of years ending -1 and -6. For the five years within each census interval, I estimated annual population growth rates by assuming that the overall

[9]As Table 1 shows, a higher population growth rate before 1976 makes New Zealand's economic performance in 1955-76 look better when measured by GDP than by GDP per capita. In addition, there is some tendency for GDP per capita to be damped by population movements that respond to economic conditions. These are due to immigration policies, the easy movement of people between Australia and New Zealand, and the inclination of New Zealanders working or studying abroad to stay overseas when conditions are bad at home.

[10]Annual GDP growth rates were computed by the author from the estimates of GDP at constant prices reported in the *New Zealand Official Yearbook [NZOY]*, 1972, pp. 694-5; 1993, pp. 528-9; and 1994. (Data from the last volume were kindly supplied by Jack Vowles.) Whenever figures in two yearbooks differed (due to revisions), I used the later version.

intercensal population growth occurred at a constant rate.[11] I also extrapolated the 1986-91 population growth rate forward to 1992 and 1993.[12] Table 1 and Figure 1 (both at the end of the paper) present the resulting estimates of the annual change in GDP per capita from 1955 through 1993.

Tests of Predictions from Olson's Theory

Olson's theory implies three hypotheses that can be compared with time-series data on economic performance:

Hypothesis 1. The rate of economic growth in New Zealand should show a secular decline from 1955 through 1984. The fundamental mechanism in Olson's theory is the gradual accumulation in undisturbed free societies of organizations for special-interest collective action. Although this "arteriosclerosis" certainly will not be so steady or powerful as to produce a monotonic decline in annual rates of growth, it should show up over a period of decades as an overall downward trend in the annual growth rate of per capita GDP.

Hypothesis 2. The rate of growth from 1974 to 1984 should be significantly lower than from 1955 through 1974. The effect of distributional coalitions, according to Olson (1982, 65), is not just static allocative inefficiency, but also loss of dynamic adaptability, as they "slow down a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions." In 1973-74, New Zealand was hit by two exogenous shocks of exceptional severity--Britain's entry into the European Economic Community and the first OPEC oil price increase. Although such blows would produce a temporary decline in any economy, the effect on a maladaptive economy should be especially severe and protracted.

Hypothesis 3. The rate of economic growth should improve after 1984. The economic prescriptions administered by New Zealand's free-market reformers from 1984 on were entirely consistent with Olson's diagnosis. In effect, they set out to destroy the economic power of every distributional coalition in sight by insulating government from special-interest influence, introducing competition and contestability in every sector, stripping away subsidies, and greatly weakening trade unions. If Olson's analysis is correct, these radical changes should result

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[11]More precisely, for each census interval, $POP(T+1)/POP(T) = (POP6/POP1)^{1/5}$, where 1 and 6 are census years, and T ranges from 1 to 5.

[12]Census population data were obtained from the *NZOY* 1993, p. 64.

in improved performance.

How do these three predictions fare when compared with the data?

Hypothesis 1. The correlation of time with the annual change in per capita GDP in indeed negative from 1955-56 to 1983-84, though only weakly so (-.14). However, a closer look shows that this "trend" is entirely due to New Zealand's precipitous decline after 1973-74. The correlation of time with growth in the two earlier decades (1956-74) is actually a positive .23.

Hypothesis 2. After the shocks of 1973-74, the New Zealand economy went into a precipitous decline, including four consecutive years during which GDP per capita actually decreased. A weak and unsteady recovery did not begin until 1979-80. In 1982-83, with the institution of wage and price controls, the economy stagnated again. Thus, by any overall measure, the New Zealand economy fared much worse in 1974-84 than in 1955-74. As Table 2 shows, the average annual growth rate fell to 0.9% from 2.1%, and a much higher proportion of years experienced no growth or low growth. Thus the data strongly support Hypothesis 2.

Table 2. GROWTH OF GDP PER CAPITA DURING THREE TIME PERIODS

	1955-74	1974-84	1984-93
Number of Years	19	10	9
Mean Annual Growth	2.13	0.88	0.65
Years with No Growth	11%	50%	44%
Years with Growth < 1%	26%	60%	67%

Hypothesis 3. If the New Zealand economy was sick from 1974 to 1984, the free-market medicine administered during the next decade seems to have been a cure worse than the disease. After one good year in 1984-85, the trend of growth from 1985 to 1992 was sharply downward, ending with New Zealand's worst recession since the Depression. Even with a robust final year in 1992-93, Table 2 shows that overall performance during this period was if anything inferior to the dismal record of the preceding decade.

The ambiguous verdict on Hypothesis 1 and the success of Hypothesis 2 suggest that, if New Zealand's experience is at all typical, proponents of the Olson theory should avoid implying that the accretion of distributional coalitions causes a continuous, gradual decline. Instead, the data suggest that an economy dominated by such groups suffers most from inability to adjust to economic shocks. Therefore, the course of decline may be episodic, more of a ratcheting down than a steady slide.

As for the apparent failure of Hypothesis 3, the jury is still out. Preliminary data indicate that the high growth rate of 1992-93 has continued into 1994. If prosperity is sustained, most observers (and New Zealanders themselves) will conclude that market liberalization has proved successful after all. Nevertheless, the transition (if that is what it was) from 1984 to 1992 was both longer and more costly than proponents of economic reform anticipated. In the next section, I shall show that Riker's analysis is consistent with, and can help explain, the poor performance of the New Zealand economy during this recent period.

Testing Riker's Theory

At first glance, Riker's analysis may seem a purely comparative structural theory with no intrinsic temporary implications. However, the social-choice results on which Riker builds show that instability (cycling) will occur only when political competition occurs within an issue space of two or more dimensions. When two parties compete along just one issue dimension, they will converge toward the position favored by the median voter, so policies will be essentially stable. Thus Riker's argument applies to pluralitarian systems like New Zealand only during periods when voters' choices depend significantly on two or more independent dimensions of evaluation.

A good deal of evidence points to the conclusion that from about 1943 until about 1970, New Zealand politics was organized around a single economic policy dimension in which issue positions depended mainly on class interests (Nagel 1994b). Between the 1969 and 1972 elections, a series of non-economic issues began to affect party competition, with the result that politics became volatile and policies unstable, as social-choice theory would predict. The evidence of electoral volatility is clearcut (Nagel 1994b, McRobie 1992). In 20 of the 23 years from 1949 until 1972, New Zealand was governed by one party, National. Within this span only 2 of 8 elections resulted in a change of ministry (1957, when Labour narrowly defeated National, and 1960, when National returned to power). In these 8 elections, the average change in the vote share of the governing party was only 3.8%. In contrast, in the 8 elections beginning with 1972, the average change in the governing party's vote doubled to 6.8%, and 4 elections resulted in a change of governing party (1972, 1975, 1984, 1990).

At first glance, one might conclude that the Riker theory should predict a drop in growth beginning in 1972-73. As Figure 1 shows, growth actually climbed that year and the next, and the period of abysmal performance did not start until 1975-76. In fact, however, the electoral volatility that began with the 1972 election did not produce serious instability of economic policies until 1975. To Riker (1993, 147), a key indicator of cyclic instability is "the reversal of a policy adopted under one administration immediately after a new administration comes into office." Labour's return to power in 1972 had been aided by the new salience of non-economic issues, and its conspicuous policy reversals had to do with withdrawal of troops from Vietnam, opposition to French nuclear testing, recognition of China, and a ban on a rugby tour by the South African Springboks. The changes Labour introduced in economic policies were within the scope of the then-prevailing consensus: a bonus payment to means-tested beneficiaries, removal of temporary wage and price controls, the institution of a no-fault accident-compensation scheme, and a freeze on charges levied by the state-owned postal, rail, and electricity services. (McRobie 1992, 388-90) In 1975, when National returned to power under the leadership of Robert Muldoon, instability of basic economic policies became much more evident, as McRobie (1992, 392) observes:

> Political stability in democratic states is normally maintained by newly elected governments accepting most of the legislation passed by the previous governments. This convention was strained between 1975 and 1977 as the National Government systematically dismantled many of Labour's legislative innovations. For example, only three days after he had been sworn in as Prime Minister, Muldoon unilaterally and without legislative authority announced the abandonment of the New Zealand Superannuation Fund [a contributory plan introduced by Labour in 1974]. During the course of the next year a number of other Labour Government initiatives were repealed or radically amended.

Among these actions were the dissolution of the Local Government Commission, the abandonment of inflation-control regulations, a reorganization of public broadcasting, huge increases in charges for government services, and substantial reductions in subsidies for basic commodities.

Muldoon was to remain in office for nine years, but his hold on power was tenuous--Labour actually won more votes, but fewer seats, than National in both 1978 and 1981. Economic uncertainty was exacerbated by the struggle for power within National between Muldoon and "more-market" liberals (Nagel 1994b). Muldoon prevailed, and became increasingly interventionist as he attempted to cope with stagflation through such desperate policies as the Think Big projects and the 1982-84 wage-price freeze.

Beginning in 1984, the new Labour government's enactment of radical free-market reforms constituted the most sweeping set of economic policy reversals in New Zealand's history. (In many cases the policies repealed had been instituted by previous Labour ministries.) Although Labour won re-election comfortably in 1987, fundamental uncertainty about its economic course emerged within a few months when open warfare over tax and social policies broke out between Prime Minister David Lange and Finance Minister Roger Douglas. Their struggle resulted in dramatic political instability--Douglas eventually departed, three Labour Prime Ministers succeeded each other in the span of fourteen months, and National came back to power in 1990 with a huge electoral swing. Although National maintained Labour's key free-market reforms, it introduced radical changes of its own in areas that Labour had handled in more gingerly fashion--notably the labor market, welfare benefits, housing, health, and education.

In 1992, after his government's popularity had plummeted along with the economy, Prime Minister Jim Bolger signalled an end to radical change by reining in his Finance Minister, the free-market purist Ruth Richardson. After National survived the 1993 election with a 50-49 majority over three opposition parties, New Zealanders expected that the nearly-hung Parliament would preclude any drastic changes in policy before the next election. Moreover, a referendum in 1993 determined that future elections would be decided under a new system of proportional representation, which would probably result in multi-party parliaments and coalition governments. Increasingly, most (though not all) New Zealanders came to expect that the new system would bring about an era of policy stability, in which the free-market reforms of 1984-92 would be maintained but not extended.

In short, the history just summarized (along with other arguments I have developed elsewhere [Nagel 1994b]) shows that between 1975 and 1992, multidimensional politics in New Zealand produced political volatility, radical reversals of established policies, and persistent uncertainty about fundamental economic policies. These are exactly the conditions that Riker contended would produce loss of investor confidence and economic decline.

Thus it is appropriate to test Riker's theory by comparing New Zealand's economic performance in the era of stable economic policies from 1955 to 1975 with the era of turmoil and uncertainty between 1975 and 1993. The mean annual growth rates in GDP per capita during the two periods were 2.13% and 0.69%--a comparison that easily passes the interocular test of significance.

Conclusions

Because this study looks at the experience of just one country, uses only one indicator of economic performance, and assesses evidence in a relatively informal fashion, inferences drawn from it are necessary tentative. Nevertheless, the evidence examined here points to three sets of conclusions.

First, both Olson's and Riker's theories need to be stated in a cautious or modified way in order to achieve maximum consistency with New Zealand's recent economic history. Olson's analysis cannot be construed as requiring a nearly continuous decrement in growth. Instead, the data are more congruent with a ratchet effect in which the main problems of an arteriosclerotic economy occur in adjusting to severe shocks, and absolute deterioration in outcomes may be avoided for periods as long as two decades. Similarly, the Riker hypothesis holds only when populist (or pluralitarian) systems experience multidimensional electoral competition. It does not apply during unidimensional eras, which may last for decades.

Second, both theories fare well in accounting for the substantial worsening of economic performance that occurred in New Zealand during the mid-1970s, although Riker's theory seems more consistent with the precise timing of the downturn. There may seem to be a considerable problem of over-determination here, because exogenous shocks and unwise economic policies also appear during the same period. However, the shocks are complementary to the Olson theory; and some of the questionable policies resulted from the same unstable coalitional politics that provide the fundamental mechanism in Riker's argument (Nagel 1994b).

Third, each theory can explain aspects of New Zealand's history that are beyond the scope of the other. Although I have not attempted a comparative analysis, it is plausible that a well-designed comparative study could show that Olson's theory accounts for New Zealand's low growth rate compared to other countries in the stable period between 1955 and 1972. Riker's analysis, on the other hand, is virtually inapplicable to those years, because its fundamental mechanism is largely absent during an era in which one party was nearly always in power. Conversely, Olson's theory per se cannot explain why economic performance remained poor for so long after liberalization began. In contrast, with respect to Riker's analysis, the years before and after 1984 are both part of a single era of instability. Thus his theory explains low growth on both sides of that great divide. In short, both theories appear to have partial but incomplete explanatory power. On the whole, they are complementary.

There is, however, one way in which the partial truth contained in Riker's theory conflicts with an important inference that Olson (1993, 571) has drawn from his own analysis. This is his claim that single-member, plurality elections are preferable to proportional representation, because two dominant parties are more encompassing than multiple smaller parties, which are likely to represent special interest groups. Similarly, Haggard (1994) contends that two-party systems are conducive to stable economic policy and growth because they promote Downsian convergence. These arguments hold only when two-party systems are unidimensional. When two parties compete in a multidimensional issue space, they are just as much combinations of special interests as any multi-party coalition, and the policies they espouse will not generally converge. In fact, as Riker contends, the pluralitarian underpinning of two-party systems (especially when combined with party discipline) makes them more vulnerable than PR systems to voting cycles and thus to policy instability--except when unidimensionality obtains. Thus, if one believes that policy instability generally hurts economic performance, then an overall conclusion about whether plurality or PR is more conducive to growth depends on one's estimate of the likelihood of multidimensional politics.

However, when the status quo consists of Olsonian stagnation, the instability of a pluralitarian system may prove an advantage by making liberalizing reforms easier to initiate. As I have shown elsewhere (Nagel 1994b), this is exactly what happened in New Zealand. Supporters of market liberalization were only a minor fraction of the electorate, but the workings of unstable coalitional dynamics in a multidimensional polity, combined with party discipline and plurality rule, enabled them to control economic policy after the elections of 1984 and 1990 (and, to a considerable extent, after 1987 as well). Thus, ironically, the same pluralitarian system that (to the extent Riker is correct) helped get New Zealand into an economic morass also enabled it to reverse course. Over the long run, however, it is questionable whether such a system would be conducive either to maintaining the economic reforms or to sustaining growth. Thus, quite fortuitously, New Zealand may have hit upon the best possible sequencing of electoral systems when its citizens instituted PR after liberalizing reforms had already been accomplished under plurality.

Appendix. Evidence from Interviews about The Influence and Applicability of Olson's Theory in New Zealand

At the close of *The Rise and Decline of Nations*, Mancur Olson speculates that "if the argument in this book or other arguments of similar import should be unexpectedly influential, then the predictions derived from this book will be falsified." Because the policies pursued by New Zealand's reformers and the arguments they used to justify them (e.g., Douglas and Callan 1967) seemed to correspond so closely to Olson's analysis, I became curious to learn whether his analysis had directly influenced events. Accordingly, in the course of interviews with policymakers and informed observers, I asked those who were likely to be theoretically informed about their knowledge of *The Rise and Decline of Nations*, and their opinions about its applicability to New Zealand and its influence there. Four of the people I talked with offered informative responses. They are Brian Easton, an economist, former Director of the New Zealand Institute of Economic Research, and a prolific author and commentator; Gary Hawke, a leading economic historian and Director the Institute of Policy Studies at Victoria University of Wellington; and the two Secretaries of the Treasury during the reform period, Bernard Galvin (1980-86) and Graham Scott (1986-92).

Both Hawke and Easton recall Olson's work becoming known in New Zealand only after reforms were initiated in 1984. Both became aware of it through debates about economic policy in Australia, where Olson visited in 1984. Hawke doubts that Olson's ideas had a significant direct influence on Treasury officials in 1984, though they may have had indirect influence through the courses that some of them had taken in the U.S. When Easton discussed Olson's book with Treasury officials around this time, they were not aware of it, though they certainly were using highly compatible arguments from public choice theory. Easton claims to have been the first person to invoke Olson's argument in New Zealand when he used it in a 1985 column in the *Listener*, a mass-circulation magazine. By 1990, he says, Mike Moore (Labour's third and last Prime Minister) "was throwing the book around as though it was new."

The response of Bernard Galvin, Treasury Secretary at the beginning of the reform process, confirms Hawke's and Easton's comments about 1984. Galvin, an accountant by profession and a veteran civil servant, did not know what I meant by the Olson thesis when I asked him about it. Galvin's successor Graham Scott, who has an economics Ph.D. from Duke and is generally regarded as the principal architect of the New Zealand reforms, gave a response that is worth quoting at length:

I think it [the Olson thesis] does apply. I think it has quite a lot in its favor. But I guess as a public policy advisor, you tend to see this stuff in a much more earthy, practical kind of way. It would be a mistake to say, well, because some of us when we did get together and had a think about all of this and generalize it all, would come up with ideas like that, then that was the reason that the debate was happening or why the changes eventually happened. It was propelled by nuts-and-bolts, real things going on, even though they fit certain generalizations--*that* generalization. I think it *is* true, and I'd argue strongly that the great problem, the core of it, that New Zealand had was that the government took on itself enormous powers of intervention with an assumption that it could act like a benevolent central force....[but] its freedom to exercise them was very, very tightly limited and constrained and very influenced by lobbying...

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Table 1

ANNUAL CHANGES IN POPULATION,
GROSS DOMESTIC PRODUCT,
AND PER CAPITA GROSS DOMESTIC PRODUCT
1955-1993

YEAR	P2/P1	G2/G1	PERCAP	GDP
1956	1.023	1.037	1.4	3.7
1957	1.021	1.019	-0.2	1.9
1958	1.021	1.052	3	5.2
1959	1.021	1.028	0.7	2.8
1960	1.021	1.039	1.8	3.9
1961	1.021	1.061	3.9	6.1
1962	1.021	1.033	1.2	3.3
1963	1.021	1.031	1	3.1
1964	1.021	1.061	3.9	6.1
1965	1.021	1.061	3.9	6.1
1966	1.021	1.061	3.9	6.1
1967	1.013	1.038	2.5	3.8
1968	1.013	0.991	-2.2	-0.9
1969	1.013	1.021	0.8	2.1
1970	1.013	1.051	3.8	5.1
1971	1.013	1.037	2.4	3.7
1972	1.018	1.025	0.7	2.5
1973	1.018	1.044	2.6	4.4
1974	1.018	1.072	5.3	7.2
1975	1.018	1.04	2.2	4
1976	1.018	1.017	-0.1	1.7
1977	1.003	1.001	-0.2	0.1
1978	1.003	0.984	-1.9	-1.6
1979	1.003	1.002	-0.1	0.2
1980	1.003	1.026	2.3	2.6
1981	1.003	1.011	0.8	1.1
1982	1.008	1.049	4.1	4.9
1983	1.008	1.006	-0.2	0.6
1984	1.008	1.027	1.9	2.7
1985	1.008	1.05	4.2	5
1986	1.008	1.009	0.1	0.9
1987	1.008	1.027	1.9	2.7
1988	1.008	1.008	0	0.8
1989	1.008	0.989	-1.9	-1.1
1990	1.008	1.015	0.7	1.5
1991	1.008	0.996	-1.2	-0.4
1992	1.008	0.983	-2.5	-1.7
1993	1.008	1.054	4.6	5.4

Figure 1

CHANGE IN GDP PER CAPITA, 1955-93